

COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

This section of the report provides the required information on the U.S. Department of the Interior's compliance with the following legal and regulatory requirements:

- ▶ Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- ▶ Federal Financial Management Improvement Act of 1996 (FFMIA)
- ▶ Inspector General Act Amendments (Audit Followup)
- ▶ Audited Financial Statement Results
- ▶ Major management challenges confronting Interior
- ▶ Compliance with Other Key Legal and Regulatory Requirements

In addition, this section includes summaries of the Department's financial management improvement initiatives regarding:

- ▶ The American Reinvestment and Recovery Act of 2009 (ARRA)
- ▶ Financial Management Systems

Federal Managers' Financial Integrity Act

The Department believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (3) ensures high-quality, responsible leadership; (4) ensures the effective delivery of services to customers; and, (5) maximizes desired program outcomes. Interior has developed and implemented management, administrative, and financial system controls that reasonably ensure:

- ▶ Programs and operations achieve intended results efficiently and effectively;
- ▶ Resources are used in accordance with the mission;
- ▶ Programs and resources are protected from waste, fraud, and mismanagement;
- ▶ Laws and regulations are followed; and
- ▶ Timely, accurate, and reliable data are maintained and used for decisionmaking at all levels.

Interior's internal control program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the following Office of Management and Budget (OMB) Circulars:

- ▶ OMB Circular A-123, *Management's Responsibility for Internal Control*, including Appendix A, *Internal Control over Financial Reporting*; Appendix B, *Improving the Management of Government Charge Cards*; Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*;
- ▶ OMB Circular A-127, *Financial Management Systems*; and
- ▶ OMB Circular A-130, *Management of Federal Information Resources*.

Management Assurances

FMFIA requires agencies to provide an annual statement of assurance regarding internal accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management and reporting. During Fiscal Year (FY) 2009, the Office of Financial Management (PFM) conducted comprehensive site visits and otherwise provided oversight with regard to risk assessments, internal control reviews, and progress in implementing audit recommendations. Interior's FY 2009 Annual Assurance Statement is on the next page. The basis for the assurance statement conclusions is discussed below.

Internal Control Assessments

Interior conducts annual assessments of the effectiveness of management, administrative, and accounting systems controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary's FY 2009 Annual FMFIA Assurance Statement are based on the results of approximately 2,039 Internal control reviews conducted by bureaus and offices, including assessments of internal control over financial reporting. In addition, Interior considered the results of 30 Office of Inspector General (OIG) audits; 29 Government Accountability Office (GAO) program audits; and two financial statement audits conducted by the independent public accounting firm, KPMG LLP, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994 (GMRA). In addition, many of Interior's internal control reviews and related accountability and integrity program activities focused on areas identified as major management challenges.

FMFIA Material Weaknesses and Accounting System Nonconformances

OMB Circular No. A-123 requires that each agency identify and report on material weaknesses affecting the agency. Interior has adopted the OMB guidelines for material weakness designations and recognizes the importance of correcting material weaknesses in a timely manner. The PFM staff and senior program officials continuously monitor corrective action progress for all material weaknesses.

At the beginning of FY 2009, Interior had no Department-level FMFIA material weaknesses pending correction carried forward from the previous year. Inadequate Wireless Telecommunications had been identified as a material weakness in FY 2000 and downgraded in FY 2004, since it was then considered to be a bureau-specific matter, not a departmentwide issue. However, during FY 2009, as a result of an OIG report issued in September, 2008, and an extensive internal control review conducted departmentwide, it was determined that a reinstatement of the Radio Communications Program as a Department-level material weakness was appropriate (see Figure 1-1).

The OIG's FY 2009 Federal Information Security Management Act (FISMA) Report, dated October 9, 2009, stated that there is a significant deficiency and that the Department again does not fully comply with FISMA. Management has concluded that, while FISMA deficiencies warrant serious attention, they are not significant deficiencies, and the overall information systems security program does not represent an FMFIA material weakness.

The Department will report a material weakness corrected or downgraded when the following occurs:

- ▶ Senior management has demonstrated its commitment to resolving the material weakness as evidenced by resource deployment and frequent and regular monitoring of corrective action progress;
- ▶ Substantial and timely documented progress in completing material weakness corrective actions exists;

FY 2009 ASSURANCE STATEMENT

The Department of the Interior's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Interior is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness, Radio Communications. The details of the exception are provided in Figure 1-1 in this section of the report.

Interior conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the requirements of the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, Interior identified the one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations identified in Figure 1-1 as of September 30, 2009. Other than that exception, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, Interior conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, Interior can provide reasonable assurance that its internal control over financial reporting as of June 30, 2009, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2009, did not identify any reportable changes in key financial reporting internal controls.

Interior can also provide reasonable assurance that its financial systems substantially comply with the FMFIA and with the component requirements of the Federal Financial Management Improvement Act.



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Secretary of the Interior
November 16, 2009

FIGURE 1-1
FMFIA Material Weaknesses

As of September 30, 2009				
Description	Corrective Actions	FY 2009 Progress	Target Completion Date	Status
Office: The Chief Information Officer (OCIO) Department of the Interior Radio Communications Program: Interior has an unsafe and unreliable radio communications environment that jeopardizes health and safety of Interior employees and the public.	Interior will: 1) Assign responsibility over the radio communications program to the OCIO; 2) Develop a comprehensive management plan for the radio communications program; 3) Identify specific user groups and ensure that user needs are assessed and addressed, guidance is provided and enforced, and, training is provided; 4) Enforce existing safety procedures to notify employees and the general public of hazardous site conditions; and 5) Implement best practices, where appropriate.	1) Interior has appointed a credentialed project manager to oversee the radio communications program. This individual resides in the OCIO's office. 2) An Executive Radio Advisory Committee (ERAC) was established by the Deputy Secretary to oversee the implementation of the corrective actions. 3) A charter formally establishing the ERAC has been written and is being signed by the Deputy Secretary. 4) A policy establishing radio site standards and safety inspection criteria has been issued. 5) An assessment of radio program management is being conducted as the basis for development of the management plan. 6) Interior is implementing the Southwest Border Strategy to improve integrability which will pilot a consolidated approach to radio management.	FY 2013	Ongoing

- Corrective actions have been substantially completed, remaining actions are minor in scope, and the actions will be completed within the next fiscal year;
- Implemented corrective actions have eliminated or minimized the root cause(s) of the material weakness; and,
- Substantial validation of corrective action effectiveness has been performed.

Summaries of the Department's FMFIA material weaknesses, financial statement audit material weaknesses, and management assurances and accounting system nonconformances are presented in Figures 1-1, 1-2, and 1-3.

Internal Control Over Financial Reporting

Revised OMB Circular A-123, Appendix A, strengthens internal control requirements over financial reporting in Federal agencies. The Circular provides updated internal control standards and requirements for conducting management's

assessment of the effectiveness of internal control over financial reporting.

In FY 2008, Interior completed a third assessment of the effectiveness of internal control over financial reporting. The results of the assessment revealed that a material control weakness exists in the financial reporting of unfilled customer orders, which was reported in Interior's Statement of Assurance. In FY 2009, that weakness was corrected and for other financial reporting areas, adequate controls exist, and financial reporting can be relied upon by senior management when used in conjunction with other decisionmaking processes. Although deficiencies were found in some financial reporting business processes, corrective actions and compensating controls are expected to address the deficiencies. The Department's internal control over financial reporting reasonably ensures the safeguarding of assets from waste, loss, and unauthorized use or misappropriation, as well as compliance with laws and regulations pertaining to financial reporting. (See FY 2009 Assurance Statement, paragraph 2).

FIGURE 1-2

Summary of Financial Statement Audit

FY 2009					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls over Unfilled Customer Orders	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

FIGURE 1-3

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls over Unfilled Customer Orders	1	0	1	0	0	0
Total Material Weaknesses	1	0	1	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Radio Communications Program	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conform to Financial Management System Requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total of Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. U.S. Standard General Ledger at the Transaction Level	Yes	

Departmental policymakers and program managers continuously seek ways to achieve missions, meet program goals and measures, enhance operational processes, and implement new technological

developments. The OMB requirement to assess control over financial reporting strengthens the accountability of Departmental managers regarding internal controls and improves the quality and reliability of Interior's financial information.

Federal Financial Management Improvement Act

FFMIA builds upon and complements the CFO Act, Government Performance and Results Act of 1993 (GPRA), and GMRA. FFMIA requires that Federal agencies substantially comply with: 1) applicable Federal accounting standards; 2) the U.S. Standard General Ledger (USSGL); and, 3) Federal financial management system requirements that support full disclosure of Federal financial data, including the cost of Federal programs and activities.

Federal agencies are required to address compliance with the requirements of FFMIA in the representation letter to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the Independent Auditors' Report. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance.

The FY 2008 Department financial statement audit report identified a noncompliance deficiency — Federal accounting standards with regard to unfilled customer orders. This deficiency was corrected during FY 2009. For FY 2009, the Department substantially complies with FFMIA.

Inspector General Act Amendments (Audit Followup)

Interior has instituted a comprehensive audit followup program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2009, Interior monitored a substantial number of new Single Audit Act (418), OIG (30), and GAO (29) audit reports. Audit followup actions include analyzing audit reports referred; advising grantors of single audit findings; tracking, reviewing, and validating program and financial audit recommendations; developing mutually acceptable and timely resolution of disputed audit findings and recommendations; overseeing the implementing, documenting, and closing of audit recommendations; and, monitoring the recovery of disallowed costs. The OIG Semiannual Report to the Congress provides additional information about OIG activities and results.

To further underscore the importance of timely implementation of OIG and GAO audit

recommendations, Interior has an aggressive performance goal to implement 85 percent of all GAO and OIG recommendations where implementation was scheduled to occur during the current year or in previous years. In FY 2009, Interior exceeded this performance goal with a composite implementation rate of 86 percent.

Results of Financial Statement Audit

As required by the GMRA, Interior prepares consolidated financial statements. These financial statements have been audited by KPMG LLP, an independent public accounting firm, since FY 2001 (the OIG audited the financial statements prior to FY 2001). Additionally, one component, the Departmental Offices (DO), prepares financial statements that are also audited.

The preparation and audit of financial statements form an integral part of Interior's centralized process to ensure the integrity of financial information.

The results of the FY 2009 financial statement audit are summarized in Figure 1-2. As shown in the table, Interior again achieved an unqualified audit opinion, the 13th consecutive one, for Interior's consolidated financial statements.

Figures 1-4 and 1-5 summarize the status of material weaknesses and noncompliance issues reported in the FY 2009 and FY 2008 financial statement audit. As noted previously, Interior reports only Department-level material weaknesses and noncompliances. Interior has established an internal goal of completing corrective actions for material weaknesses and noncompliance issues by the end of the following fiscal year, unless the magnitude of the corrective action involves a multiyear effort. The FY 2008 auditors' report identified one instance of material weakness concerning controls over unfilled customer orders. Interior concurred with the finding and corrected the material weakness during FY 2009 (See Figure 1-4).

The report also identified two instances of noncompliance with laws and regulations: the Single Audit Act Amendments (SAA) of 1996 and the Prompt Payment Act (PPA) of 2002. Interior concurs with both findings. As shown in Figure 1-5, the noncompliance with the SAA is a carryover from prior financial statement audits, while the PPA-related noncompliance was first reported in FY 2009. The Bureau of Reclamation implemented corrective actions during FY 2009 and

FIGURE 1-4

FYs 2009 and 2008 Audited Financial Statements Departmental Material Weakness Corrective Action Plan (as of September 30, 2009)						
Related Bureaus	Material Weakness Description	Corrective Action	Fiscal Year		Original Target Date	Status
			2009	2008		
BLM DO FWS NPS USGS	Controls Over Unfilled Customer Orders	1) Develop and communicate accounting policies and procedures for unfilled customer orders; 2) Provide training to personnel on accounting for unfilled customer orders; 3) Record the entire amount of an unfilled customer order when the order is received; and 4) Monitor and close out an unfilled customer order when the order expires or funding is no longer available for obligation.		X	3/31/09	Corrected

FIGURE 1-5

FYs 2009 and 2008 Audited Financial Statements Departmental Noncompliance Corrective Action Plan (as of September 30, 2009)						
Related Bureaus	Noncompliance Description	Corrective Action	Fiscal Year		Original Target Date	Status
			2009	2008		
BLM MMS OSM	Prompt Payment Act of 2002	1) Modify the accounting system to properly calculate prompt payment interest; and, 2) Require a documented second-person review of prompt payment interest that is manually calculated.	X		9/30/10	In Progress
BOR (2008 only) DO FWS NPS	Single Audit Act Amendments of 1996	Obtain Single Audit, Financial Status, Grant Performance, and Annual Reports and issue management decisions on audit findings in accordance with the requirements of the Single Audit Act Amendments.	X	X	9/30/06	Carryover
BLM DO FWS NPS USGS	Federal Financial Management Improvement Act of 1996	Improve procedures and internal controls to ensure the financial statements are prepared in accordance with Federal accounting standards.		X		Corrected

is no longer noncompliant with the SAA, however the Departmental Offices, Fish and Wildlife Service, and the National Park Service have not yet completed mitigating actions to correct the noncompliance.

Major Management Challenges Confronting Interior

The OIG and the GAO annually advise Congress on what are considered to be the major management challenges facing Interior. A summary of the major management challenges identified by the OIG and GAO and Interior's response to the challenges identified are contained in Part 3: Other Accompanying Information, of this report.

Compliance with Other Key Legal and Regulatory Requirements

Interior is required to comply with several other legal and regulatory financial requirements, including the Prompt Payment Act (PPA), Debt Collection Improvement Act (DCIA), and Electronic Funds Transfer (EFT). Information concerning these regulatory requirements can be found in Part 3: Other Accompanying Information, of this report.

The American Reinvestment and Recovery Act (ARRA) of 2009

ARRA was signed into law by President Obama on February 17, 2009. It is an unprecedented effort to jump start the economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges. This effort includes measures to modernize the nation's infrastructure,

enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

The \$3 billion in funding allocated for Interior in President Obama's economic recovery plan could create as many as 32,500 jobs and stimulate business activity in communities across America. Under ARRA, Interior is making an investment in conserving America's treasures—our natural landscapes, our monuments to liberty, the icons of our culture and heritage—while helping working families and their communities prosper again.

For details on Interior's ARRA activities, refer to <http://recovery.doi.gov>.

Financial Management Systems

Interior shares the view of the Governmentwide CFO Council that a key to improved financial and program management is improved financial management systems. Improving financial management systems will provide for and strengthen decisionmaking capabilities and enable Interior program and financial managers to more effectively achieve Interior's missions. Interior recognizes the importance of financial management systems as a part of the capital assets portfolio and uses sound information technology investment management principles to plan and monitor these systems. With the Financial and Business Management System (FBMS), Interior's goal is to achieve and maintain the objective stated in OMB Circular A-127 – for each agency to establish a single, integrated financial management system. In pursuing this goal, Interior will follow the information technology investment management practices and principles identified in the Clinger-Cohen Act of 1996.

Financial Management Systems Improvement Strategy

Interior's goal is to continue to improve financial transaction processing and to enhance financial management systems support through an effective partnership of program, information system, and financial managers. Interior relies on financial management systems planned for, managed together, and operated to collectively support program and financial managers. These systems are managed at various levels within Interior. Some of these systems are managed on a Departmental level, others are maintained at a bureau level, and

some are Governmentwide systems on which the Department relies. Collectively, they represent the Department's financial management systems architecture.

The Department has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements: (1) improvement of internal control; (2) elimination of redundant data entry; (3) enabling end-to-end transaction processing; and, (4) standardization of data for improved information quality. The Department's current, major financial management system improvement effort centers around FBMS. Interior is implementing the fifth of eight FBMS deployments that will result in the Department's business transformation to a fully integrated business management system.

Financial and Business Management System

FBMS is an integrated suite of software applications that will help the Department manage a variety of business functions, including core financials, acquisition, budget formulation, personal property and fleet management, real property, travel, financial assistance, and enterprise management information and reporting. When fully operational in FY 2014, FBMS will provide Interior with standard business practices supported by a single, integrated financial and administrative system for all bureaus.

The standardization and integration delivered by FBMS will help facilitate more collaborative relationships and establish a common approach to financial and business management across Interior. As a result, Interior will be positioned to deliver programs and services in a more efficient and more effective manner. Benefits gained from implementing this suite of applications will include:

- ◆ Standardized and integrated business processes;
- ◆ Improved security and internal controls;
- ◆ Improved cost information;
- ◆ Improved tracking and auditing capabilities;
- ◆ Reduced double entry of data in multiple systems and manual paper processing;
- ◆ Improved Departmentwide and bureau-specific reporting capabilities;
- ◆ Increased data integrity; and,
- ◆ Retirement of aging and unsupported legacy systems.

FY 2009 Accomplishments

FBMS accomplishments include the successful first quarter FY 2009 deployment of the FBMS functionality of personal property and fleet management, E-Gov Travel, electronic commerce, and Human Resources Mini-Master to the Bureau of Land Management (BLM), the Office of Surface Mining Reclamation and Enforcement (OSM), and the Minerals Management Service (MMS). The FBMS acquisition, core financial, financial assistance, and enterprise management information and reporting functions were deployed to BLM early in FY 2009. These functions were operational in OSM and MMS beginning in FY 2005. The Project Management Office (PMO) provided operations and maintenance support to FBMS. The National Business Center (NBC) remained the system's shared-service hosting provider. Some of the accomplishments of the PMO and NBC include:

- ▶ Provided post-go-live system support for Deployment 4 (BLM);
- ▶ Completed business blueprinting for the FY 2011 deployment of FBMS functionality to BLM, OSM, and MMS, and the FY 2010 deployment of all FBMS functionality, except budget formulation, to the U.S. Geological Survey (USGS). The major functionality addition planned for this deployment (Deployment 5) is Real Property;
- ▶ Developed, tested, and implemented three interim FBMS enhancements in June and July of FY 2009; and,
- ▶ Received a full Certification and Accreditation (C&A) from the Designated Approving Authority (Deputy Assistant Secretary, Budget and Business Management) on October 14, 2008. This C&A provided authorization to operate Deployment 4 in the production environment.

Future Planned Activities

Other necessary activities are planned to ensure successful deployments of FBMS in the out-years after FY 2010. These activities include:

- ▶ Completing realization activities for Deployment 5 (USGS) with scheduled go-live in early FY 2011;
- ▶ Deploying a major new hardware and software technical refresh scheduled to be installed in the second quarter of FY 2010;
- ▶ Conducting planning and early start Blueprint activities for Deployment 6, scheduled for early FY 2012, which will be comprised of the U.S. Fish and Wildlife Service (FWS), the NBC, and the Office of the Secretary, and;
- ▶ Designing, developing, testing, and implementing standard public sector budget formulation functionality for deployment in FY 2011.